



Michael C. Schlachter, CFA
Managing Director & Principal

May 6, 2011

Dr. Louis Moret
Chair, Performance and Compensation Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Fiscal 2012 Incentive Compensation Worksheets

Dear Dr. Moret:

You requested Wilshire's opinion with respect to the proposed incentive compensation worksheets for Portfolio Managers and higher for fiscal year 2012.

Recommendation

Wilshire recommends that the Performance and Compensation Committee approve the first reading for the worksheets as proposed for Staff.

Discussion

Wilshire has reviewed the worksheets proposed by Staff for fiscal year 2012 and recommends that the Committee approve the worksheets for first reading. Wilshire has made a few dozen comments to Staff regarding recommendations and corrections to the worksheets. All of the issues we have raised with Staff have been successfully resolved to date. We are waiting on final details regarding the AIM worksheets and Global Equity asset class measure and do not yet recommend these worksheets for final approval.

We note that the study last year by an outside consultant recommended "increasing consistency" among the worksheets for all personnel. In the worksheets proposed for next fiscal year, there have been a number of changes that have both increased and decreased consistency among the various asset classes. Where consistency has decreased, HR Staff has reviewed the proposed changes with investment Staff and has presented arguments for why these changes are in the best interest of the system. As much as uniform consistency is a desirable goal, the realities of the actual duties and projects being undertaken by Staff dictate that this goal may be unobtainable in the near term.

Please let us know if you have any questions or comments.

Best regards,

A handwritten signature in black ink, appearing to read 'Michael Schlachter'.

Wilshire Associates

370 Interlocken Boulevard Suite 620 Broomfield, CO 80021 TEL 303.626.7444 FAX 303.466.1537
www.wilshire.com